

## Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 SS-15 ARA-10 EA-10 AID-05

IGA-02 CIAE-00 DODE-00 PM-05 H-01 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 USIA-06 OMB-01

TRSE-00 /095 W

-----130420 072126Z /64

R 071530Z SEP 77

FM AMEMBASSY BERN

TO SECSTATE WASHDC 4893

INFO AMEMBASSY LISBON

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DEPT PASS OECD CAPITALS: USOECD FOR KORP

3.O. 11652: N/A

TAGS: EFIN, PO, SZ

SUBJECT: FINANCIAL ASSISTANCE FOR PORTUGAL

REF A) STATE 211910; B) BERN 3722

1. DANIEL KAESER, MONETARY AFFAIRS ADVISOR, FEDERAL FINANCE AND CUSTOMS DEPT, HAS TOLD US THAT THE SWISS MADE A FORMAL LOAN OFFER TO THE PORTUGUESE IN LATE AUGUST. THE PORTUGUESE ARE NOW STUDYING THE OFFER. AS AGREEMENT IN SUBSTANCE WAS REACHED EARLIER, THE SWISS BELIEVE THE LOAN AGREEMENT WILL BE SIGNED SUBSTANTIALLY AS IT NOW STANDS.

2. THE LOAN WILL BE FINANCED BY THE SWISS NATIONAL BANK AND GUARANTEED BY THE GOVT OF THE SWISS CONFEDERATION. THE LOAN WILL BE MADE IN DOLLARS, REPAYABLE IN DOLLARS. THE AMOUNT, AS STATED REFTTEL B, IS \$30 MILLION. THE ENTIRE AMOUNT MAY BE DRAWN WHEN THE LOAN AGREEMENT IS SIGNED. INITIALLY, HOWEVER, THE LOAN WILL BE FOR SIX MONTHS. THE RATE OF INTEREST WILL BE THE RATE AT WHICH US TREASURY SIX-MONTH BILLS WERE SOLD ON THE LAST  
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DAY OF SALE PRIOR TO THE DATE ON WHICH THE PORTUGUESE DRAW ON THE LOAN.

3. THE ENTIRE AMOUNT IS REPAYABLE AT THE END OF SIX MONTHS IF, BY THAT TIME, THE PORTUGUESE HAVE NOT CONCLUDED AN AGREEMENT WITH THE IMF ON THE SECOND TRANCHE.

4. AFTER THE FIRST SIX MONTHS AND IMF SECOND TRANCHE AGREEMENT, THE LOAN WILL BE CONTINUED FOR A FURTHER PERIOD OF SIX AND ONE-HALF YEARS. THE RATE OF INTEREST WILL BE THE RATE EXPERIENCED AT THE MOST RECENT SALE OF US TREASURY SECURITIES OF SIMILAR DURATION.

5. ASSUMING PORTUGUAL REACHES AGREEMENT WITH THE IMF ON THE SECOND TRANCHE, INTEREST ON THE LOAN WOULD BE PAYABLE SEMI-ANNUALLY. THE PRINCIPAL WOULD BE REPAYED IN TWO INSTALLMENTS, \$15 MILLION AT THE END OF THE FIRST FIVE YEARS, AND \$15 MILLION AT THE END OF THE SIXTH.

6. THE ONLY OTHER CONDITION IS THAT PORTUGUAL AGREE TO NO TIED LOAN AS A PART OF THIS AID EFFORT.

THE SWISS HAVE ACCEPTED THE JAPANESE EXPLANATION THAT THE \$50 MILLION UNTIED LOAN THEY HAVE AGREED TO PROVIDE IS THEIR CONTRIBUTION TO THIS EFFORT AND THAT THE OTHER \$25 MILLION IS FOR OTHER PURPOSES.

7. KAESER STRESSED THAT WHILE HE THOUGHT THE PORTUGUESE WOULD ACCEPT THE TERMS AS OFFERED, HE COULD NOT BE CERTAIN. HE ASKED THAT ANY PUBLICATION IN THE US OF THE TERMS OFFERED INCLUDE THE STATEMENT THAT FINANCING IS COMING FROM THE SWISS NATIONAL BANK.

WARNER

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NOTE BY OC/T: NOT PASSED TO OECD CAPITALS.

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## Message Attributes

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**Review Markings:**  
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